Credit Unions Cash In On Banking Backlash

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The little bank you did business with for 25 years got swallowed up by a big conglomerate. You received your monthly bank statement and noticed new, surprising fees. You can't get a customer service rep on the phone.

You no longer trust your bank.

For whatever reason—high fees and poor service being the two most common, reports Javelin Strategy & Research—you want to drop your bank.

An increasing number of Americans are dissatisfied with their banks. Just 35 percent of people feel highly committed— down 6 percentage points from 2007, according to a recent study by J.D. Power & Associates.

As a result more disgruntled consumers are switching to credit unions—nonprofit financial cooperatives owned by members and governed by a volunteer board.

Credit union membership grew 11 percent in the third quarter of 2009 alone. Today, some 90 million Americans belong to one. Should you?

Need To Know

1) Anyone Can Join

If you think credit unions are just for a niche group of teachers or church members, think again.

"Today, credit unions are much less restrictive and much more accessible," says Ed Mierzwinski, consumer program director for the US Public Interest Research Group.

Sure, you have to share a 'common bond', like employment or even culture, with other members, but the rules have relaxed so much over the years that membership is often open to entire communities. To find a credit union near you, go to The National Association of Federal Credit Unions website: **www.CULookup.com**.

2) Pssst – They're Making Loans!

The most recent data shows that commercial bank loan portfolios shrank by about 5 percent for the year ending in June while credit union loan balances grew by about 5 percent—nearly double what you'd see in a typical recession.

If you're a creditworthy customer, you stand a better chance of getting a personal loan at a credit union than you do at a commercial bank.

"We weren't as tangled up in the subprime mess, so while the big banks are hunkering down and licking their wounds, we're in much better shape to make consumer loans, and are continuing to do so as we watch our market share grow in every market we serve," says Mike Schenk, VP of economics and statistics at Credit Union National Association.

3) Interest Rates Are Attractive

Bank profits go back to investors in the form of higher stock prices; at credit unions, profits go to members in the form of better interest rates.

How much better? Research from DataTrac shows that the average bank rate on a 48-month new car loan is 6.34 percent; at a credit union, it's 5.15 percent; the average bank rate on a home equity loan is 7.19 percent; at a credit union, it's 6.02 percent. Interest rates on bank-issued credit cards are about 20 percent higher than their credit-union issued counterparts, according to a new report by The Pew Charitable Trusts.

4) Fees: You Can't Avoid Them Altogether

In the past, credit unions, just like commercial banks, made most of their money from interest income from loans. Today, a growing proportion of their income comes from fees.

They are typically less than the ones imposed by banks; the median credit-card late fee is $20 at a credit union compared to $39 at banks.

According to the Center for Responsible Lending, banks and credit unions combined, collected nearly $24 billion in such fees in 2008.

"Despite congressional action to rein in abusive overdraft practices, the fact that many credit unions are even imposing this fee on their own members is both unfair and outrageous," says Mierzwinski.

5) Size Does Matter

Though the typical credit union has about 3,000 members, some have tens or even hundreds of thousands of them.

This matters because while the larger, more established ones today offer the same products and services you find at a bank—from electronic banking to free ATM use.

Services may be limited at smaller credit unions, says Linda Sherry, spokeswoman for Consumer Action.

"They don't have the resources so they may just give you a [credit] card from a big bank like Chase, for example, and you'd be up against the same practices and fees of Chase so there's no added benefit, says Sherry."